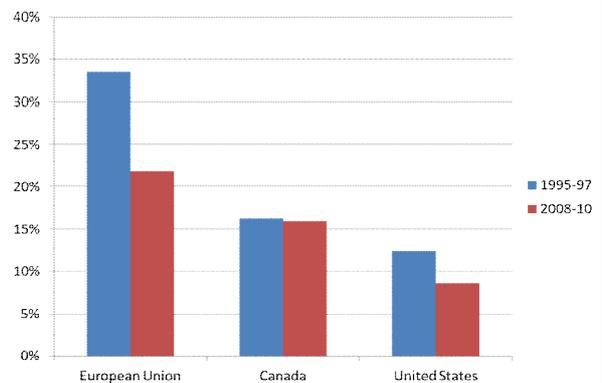


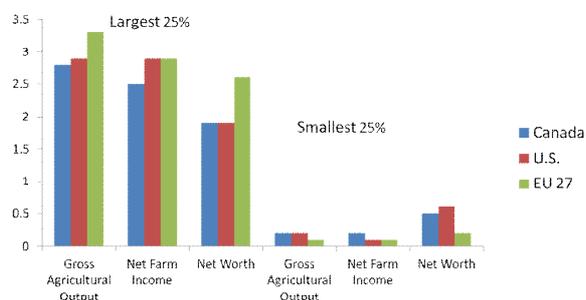
A Review of Farm Structure and Agriculture Policy in Canada and Comparisons to the EU

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Producer Support Estimates (OECD Database)



Ratio of Average of Quartile Farms to Average of All Farms (OECD Database)



Canadian Agricultural Policy

- Business Risk Management programs:
 - *AgriStability*
 - Provides payments when the production margin, based on the previous 5 year olympic average, declines by more than 15%.
 - *AgriInvest*
 - For small margin declines of 15% or less.
 - Governments match annual producer contributions to savings accounts up to 1.5% of allowable net sales.

– *AgriInsurance*

- Provides insurance against production losses.
- Covers for losses resulting from natural hazards.
- Losses that are controllable or could have been prevented with sound farm management practices are not covered.

– *AgriRecovery*

- Financial assistance for a disaster situation;

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Canadian Wheat Board

- The CWB is the mandatory exporter of Wheat & Barley grown on the Canadian prairies.
- Government guarantee if prices fall “too low”
 - Federal government currently in the process of removing the “mandatory” & “guarantee”.
- Each farmer receives the same total payment for the same grade of grain, regardless of when the grain is delivered during the crop year.
- Total operating costs are spread across all classes & grades within a pool account & thus are shared equally among all farmers.
- Farmers pay for the costs of transporting their grain to the nearest point of export.

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The Canadian Supply Management System for Dairy Products (Conference Board)

- The poultry & egg industries in Canada also have supply management systems.
- Key elements:
 - Setting Prices
 - Production costs (farmers’ average cash costs including interest) (40% weighting)
 - Consumers’ ability to pay (personal disposable income) (30% weighting)
 - Consumer prices (consumer price index) (30% weighting)

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– Controlling Production Level

- Provinces are allocated quota based on history & population, to try & match demand & supply.

– Controlling Imports

- Only small amounts of traditional dairy products enter Canada under low tariffs
- Recently imports of milk proteins which are not subject to tariffs have risen dramatically
 - The domestic content requirement for cheese was increased thereby restricting the import of milk proteins.

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Controlling Imports

Table 1
Import Quotas and Tariffs for Selected Canadian Dairy Products
(tonnes; per cent)

	Import quota* (metric tonnes)	Quota as share of 2008 dairy consumption (per cent)	In-quota tariff** (per cent)	Over-quota tariff** (per cent)
Fluid milk	64,500	2.3	7.5	241
Yogurt	332	0.1	6.5	238
Butter	3,274	3.7	6.5	299
Cheese	20,412	5.0	1.0	246
Ice cream	347	0.1	6.5	277
Skim milk powder	0	0.0	6.5	270

*Canada's minimum access commitments under the Uruguay Round of trade negotiations.
**Most-favoured nation tariffs; Abbassi et al. converted tariffs applied in cents per kilogram to percentage equivalents using world prices.
Sources: Abbassi et al.; Agriculture and Agri-Food Canada et al.; WTO Tariff database; The Conference Board of Canada.

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Supply Management's Broader Implications

- Setting Prices
 - Basing prices on average production costs creates:
 - Greater Price Stability
 - Dairy prices in Canada are higher & more stable than those in many other countries.
 - A disincentive to control costs
 - A disincentive to increase productivity & innovate
 - Average herd size is 70 cows (AAFC)
 - Average herd size in U.S. is 139 cows (USDA)
- Benefits to producers at the expense of consumers

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- Canadian dairy prices higher than world levels.
 - In 2009, 1 litre of whole milk in Canada was €0.42 & €0.45 more than in the U.S. & Australia respectively.
- Controlling Production Level
 - Provinces are allocated quota based on history & population, not comparative advantage.
 - Cost of production probably significantly lower on the prairies than in Quebec & Ontario.
 - New/expanding dairy farmers must buy quota.
 - Expected profits are capitalized into its value.
 - › In 2007 the average dairy farm owned @€1.05 million of quota, (Stat. Can. Farm Financial Survey)
 - › Accounting for 47% of the farms assets
 - › This works out to be €15,000 per cow or €15 billion in total.

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- By defending supply management Canada has lost influence at multilateral trade talks
- Substitution of dairy & non dairy imports for Canadian dairy products
 - Have to keep changing rules (more Canadian dairy in cheese)
- Declining Canadian per capita milk consumption
 - Down 1% per year on average over the last 20 years & forecast to continue.
- Inability to take advantage of global opportunities
 - Increasing dairy consumption in much of world
 - Canada exported only @5% of dairy receipts.

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DISTRIBUTION OF SUPPORT AND INCOME IN AGRICULTURE

Moreddu, C. (2011), "Distribution of Support and Income in Agriculture", *OECD Food, Agriculture and Fisheries Working Papers*, No. 46, OECD Publishing.
<http://dx.doi.org/10.1787/5kgch21wkmbx-en>

• Abstract

- Agricultural production & support in Canada, the United States, & the European Union are highly concentrated on larger farms.
- Smaller farms are more dependent on support (in particular, payments) which accounts for a larger share of their gross receipts.
- As payments to farmers are more equally distributed than production, government support reduces income inequality by farm size & farm type.

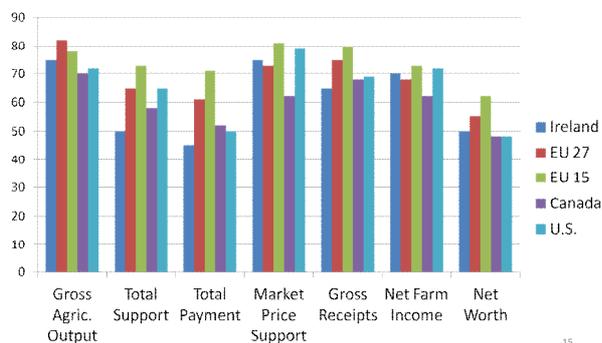
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• Definitions

- **Total Support** includes Market Price Support plus Total Payments
- **Market price support** includes transfers from consumers and taxpayers to agricultural producers from policy measures that create a gap between domestic market prices and border prices.
- **Total payments** include budgetary transfers to farmers from agricultural policy
- EU 27 - corresponds to the full EU membership
- EU 15 - corresponds to members states in 2003

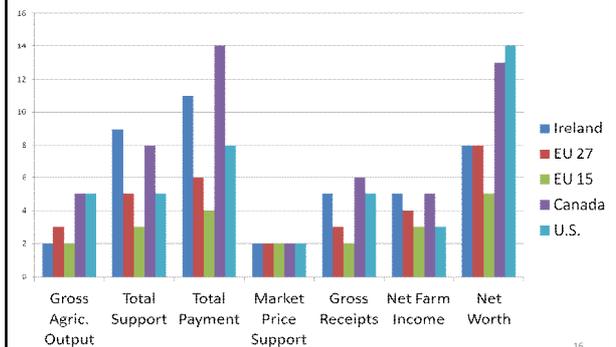
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Share of the 25% largest farms in selected OECD countries, by income component, 2007



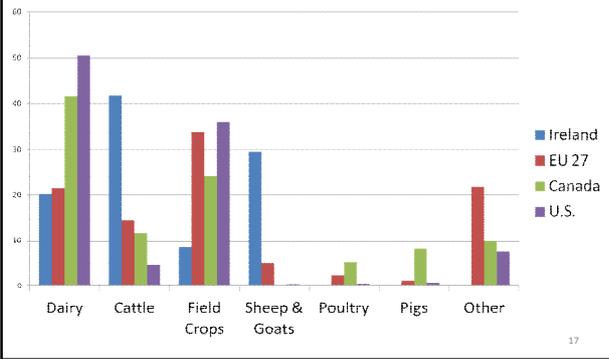
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Share of the 25% smallest farms in selected OECD countries, by income component, 2007

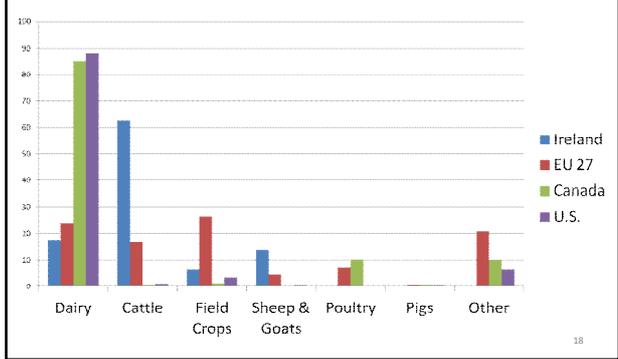


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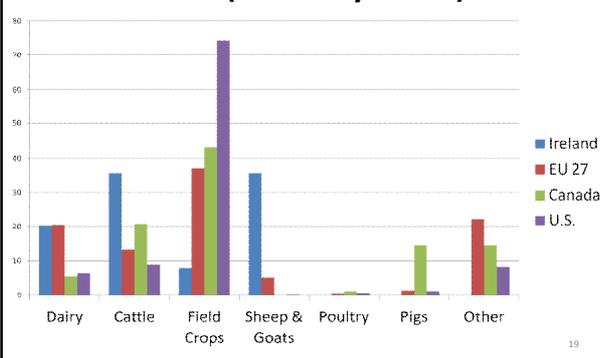
Distribution of Support by Farm Type, 2007 (Total Support)



Distribution of Support by Farm Type, 2007 (Market Price Support)



Distribution of Support by Farm Type, 2007 (Total Payments)



Problems With Government Support for Agriculture

- Support can distort markets
 - Export subsidies & restrictions
 - Food aid affecting local markets
 - Biofuels policies
- Who ultimately benefits from the support
 - Much of the support eventually gets capitalized into the means of production
 - New entrants loose as they must pay more for quotas & land

- Farm input suppliers gain through market power by charging more for their products
- Quota & land owners gain through higher values & rents
- Who are the owners of the means of production?
 - Older farmers
 - This may be reasonable as a reward for a life time of being cash poor
 - But, in Canada the average farm family has 2.36 times the wealth of the average of all Canadian families (Statistics Canada & Agriculture & Agri-food Canada).
 - So should their wealth be enhanced?

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- Non farming owners
 - Should their wealth be enhanced ?
 - Who are these owners?
 - In Canada @39% of the farm land is rented (Stats. Can.)
 - In the U.S. @25% of the farm land is rented (USDA)
 - » Most of the landlords are older farmers or family members. (Author's opinion)
 - In the EU what % of farm land is rented?
 - » France 84%, Germany 70%, UK 43%, Ireland 17% (J. Swinnen et al.)
 - » Are the European landlords retired farmers or landed gentry?

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How Can Governments Wean Themselves Off of Support for Agriculture

- Cancel or phase out support with no or little compensation
 - New Zealand and Australia have done it
 - It is politically infeasible in most countries
- Buy Out recipients
 - “Crow Benefit” in Canada paid out in 1996
 - Benefit was paid to railways for transporting grain at reduced rates @\$600 million/yr
 - Total paid to farmers in 1996 was \$1.6 billion
 - Capitalized value was @\$6 billion depending on interest rate used

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- Buyout of peanuts & tobacco in U.S. (Orden)
 - Both got much closer to their capitalized values
- Bond Scheme
 - Individual farmers eligible for support are issued a bond that includes the right to a certain annual payment for a certain amount of time.
 - The bond is tied to the individual and his/her estate and not to any means of production
 - The recipients can sell the bond at any time or keep it for its annual payment.
 - At the end of its life the bond is worthless

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